

Message Text

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ACTION EUR-12

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SUBJECT: EC COMMITTEES OPPOSE GENERAL INDEXATION OF COMMODITY
PRICES AND FINANCIAL ASSETS

REF: A) STATE 175861

B) EC BRUSSELS 6974

C) USEC A-203

1. BEGIN SUMMMARY: THE EC ECONOMIC POLICY COMMITTEE HAS
ADOPTED A REPORT OPPOSING A GENERALIZED SCHEME FOR THE IN-
DEXATION OF COMMODITY PRICES. THE REPORT STATES, HOWEVER,
THAT FURTHER STUDY MIGHT BE GIVEN TO THE INDEXATION OF A FEW
COMMODITY PRICES AS PART OF PRODUCT AGREEMENTS. THE MONETARY
COMMITTEE OPPOSES THE INDEXATION OF THE VALUE OF FINANCIAL
ASSETS. IT SUGGESTS THE USE OF A UNIT OF ACCOUNT COMPOSED OF
A MARKET BASKET OF CURRENCIES TO DENOMINATE SELECTED FINANCIAL
ASSETS AND THEREBY REDUCE THE EXCHANGE RATE RISK. END SUMMARY.

2. THE ECONOMIC POLICY COMMITTEE, WHICH IS COMPOSED OF SENIOR-
LEVEL MEMBER STATE REPRESENTATIVES, ADOPTED ON OCTOBER 8
A REPORT OPPOSING THE GENERAL INDEXATION OF RAW MATERIAL
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PRICES. THE COMMITTEE'S REPORT NOTES THAT INDEXATION WOULD

DISTORT THE ALLOCATION OF RESOURCES AND INCOMES AMONG DEVELOPING COUNTRIES. INDEXATION WOULD ALSO CREATE INEQUITIES BY DIRECTING AN INCREASED PROPORTION OF DEVELOPMENT ASSISTANCE TOWARD RAW MATERIAL PRODUCERS. THE COMMITTEE DOES NOT AGREE WITH THE ARGUMENT THAT INDEXATION OF RAW MATERIAL PRICES IS NECESSARY TO PREVENT THE DETERIORATION OF THE TERMS OF TRADE OF PRIMARY PRODUCING COUNTRIES. THE COMMITTEE CONCLUDES THAT EXISTING FORMS OF ASSISTANCE SUCH AS DEVELOPMENT AID ARE THE BEST WAYS OF HELPING THE LDCS.

3. THE REPORT STATES THAT PETROLEUM IS THE PRODUCT BEST SUITED FOR PRICE INDEXATION FROM A TECHNICAL STANDPOINT. IT WOULD BE DIFFICULT, HOWEVER, TO CHOOSE A REFERENCE BASE. IN ADDITION, INDEXATION OF OIL PRICES IS NOT JUSTIFIED BECAUSE OF ITS NEGATIVE IMPACT OF NON-OIL PRODUCING LDCS. MOST OIL PRODUCERS ARE NO LONGER POOR. (NEVERTHELESS, COMMISSION OFFICIALS SAY THAT THE COMMITTEE'S DISCUSSIONS INDICATE THAT THE EC MIGHT GO ALONG WITH INDEXATION OF OIL PRICES IF A REASONABLE PRICE WAS SET FOR THE REFERENCE BASE.)

4. THE COMMITTEE CONSIDERED EXISTING MARKET MECHANISMS TO BE INADEQUATE AND CALLED FOR MEASURES TO STABILIZE LDC EXPORT INCOMES. THE REPORT CITES AS POSSIBLE MEASURES PRODUCT AGREEMENTS, MARKET ORGANIZATIONS, COMPENSATORY FINANCING MECHANISMS AND REDUCING BARRIERS TO LDC TRADE. LIMITED PRICE INDEXATION OF CERTAIN RAW MATERIALS MIGHT BE CONSIDERED AS PART OF PRODUCT AGREEMENTS. (COMMENT: COMMISSION OFFICIALS SAY THAT THE MAIN EXCEPTION THEY TAKE WITH THE PARSKY PAPER ON INDEXATION IS ITS SUPPORT FOR THE EXISTING MARKET MECHANISM. THESE OFFICIALS BELIEVE THE MARKET MECHANISM HAS A NUMBER OF IMPERFECTIONS WHICH NEED CORRECTION AND NOTE THAT FOR ALL PRACTICAL PURPOSES OIL PRICES ARE CURRENTLY NOT BEING SET BY MARKET FORCES. END COMMENT.)

5. THE EC MONETARY COMMITTEE ADOPTED ON OCTOBER 3 AND OPINION OPPOSING THE INDEXATION OF THE VALUE OF FINANCIAL ASSETS. SUCH A SYSTEM WOULD CREATE DISTORTIONS AND INEQUITIES; FOR EXAMPLE, THOSE ASSETS NOT INDEXED WOULD BECOME LESS ATTRACTIVE AND THOSE INVESTORS WHO DO NOT HAVE ACCESS TO INDEXED ASSETS WOULD BE DISCRIMINATED AGAINST. SOME STEPS CAN BE TAKEN, LIMITED OFFICIAL USE

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HOWEVER, TO REDUCE INVESTORS' EXCHANGE RATE RISKS. THE COMMITTEE NOTES THAT EACH MEMBER STATE IS FREE TO DENOMINATE ITS BORROWINGS AS IT CHOOSES. THE ADR OR THE EUROPEAN UNIT OF ACCOUNT (EUA, BASKET OF EC CURRENCIES) MIGHT BE USED TO REDUCE THE INVESTORS' EXCHANGE RATE RISK. COMMISSION OFFICIALS SAY THE EC IS GIVING CONSIDERATION TO MAKING AT LEAST SOME OF ITS BORROWINGS IN EUAS.

6. COPIES OF THESE TWO REPORTS WILL BE SENT TO INTERESTED
WASHINGTON AGENCIES, INCLUDING CLARK IN STATE/RPE.

7. COMMENT: COMMISSION OFFICIALS ARE NOT SATISFIED WITH THE
FINAL VERSIONS OF THESE REPORTS, ESPECIALLY THE ONE ON COMMO-
DITY PRICE INDEXATION. SEVERAL MEMBER STATES WANTED TO WATER
DOWN THE REPORTS SO THAT THE EC COULD KEEP ITS OPTIONS OPEN
FOR THE FORTHCOMING DISCUSSIONS ON PRICE INDEXATION IN THE
NORTH-SOUTH DIALOGUE. COMMISSION OFFICIALS DO NOT WANT THE
EC TO TAKE THE LEAD ON THIS ISSUE AT THIS TIME AND CONSEQUENTLY
DO NOT PLAN TO MAKE THESE REPORTS PUBLIC. THE COMMISSION BELIEVES
THE SIX MONTHS DEVOTED TO PREPARING THESE REPORTS HAVE BEEN
USEFUL. EC OFFICIALS ARE NOW CONVERSANT ON PRICE INDEXATION
AND ARE AWARE OF THE PITFALLS OF ANY GENERALIZED SCHEME.
END COMMENT.GREENWALD

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